Asset Size Thresholds for Supervision of Holding Companies

By Leanne Kelly

The Bank Holding Company Act, originally enacted in 1956, provides a framework for the supervision and regulation of all domestic and foreign companies that control a bank and the subsidiaries of such companies. Supervision and regulation of these entities has changed over time, and more changes are forthcoming as the Board of Governors implements the requirements of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) of May 2018.

Capital planning and adequacy

Regardless of holding company size, the Federal Reserve expects its supervised institutions to implement adequate capital planning processes and ensure capital adequacy. The principal capital regulations for Federal Reserve–regulated institutions are the Small Bank Holding Company Policy Statement (Appendix C of Regulation Y, 12 C.F.R. 225), Regulation Q Capital Adequacy requirements (12 C.F.R. 217), Regulation YY Enhanced Prudential Standards (12 C.F.R. 252), and Regulation Y capital plan rules (12 C.F.R. 225.8).

On August 28, 2018, the Board issued an interim final rule, which raises the asset threshold for holding companies subject to the Small Bank Holding Company Policy Statement from $1 billion to $3 billion. Tis change provides corresponding relief from comprehensive consolidated financial regulatory reports. Tis policy statement applies only to holding companies with consolidated assets of less than $3 billion that meet certain qualitative requirements, including those pertaining to nonbanking activities, of-balance-sheet activities, and publicly registered debt and equity. The policy statement exempts companies that meet these specifications from the Board's minimum capital requirements (Regulation Q).

EGRRCPA also resulted in changing the thresholds of certain enhanced prudential standards of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Upon enactment, EGRRCPA exempted holding companies under $100 billion in assets from the requirements that Dodd-Frank originally mandated relating to certain enhanced prudential standards for holding

companies with assets greater than $50 billion and the Dodd-Frank mandated company-run stress tests for firms with greater than $10 billion in assets.

Audit committee

As mentioned in my Fed Notes article in the summer 2017 edition of Bank Owner magazine, section 36 of the FDI Act provides clarification for those depository institutions that elect to use the audit committee of the parent holding company to satisfy the depository institution's audit committee requirements. The level of independence and expertise of the audit committee increases as the size of the institution increases, with threshold triggers at $500 million, $1 billion, $3 billion, and $5 billion. In addition, for public companies (including those that are banks and bank holding companies) section 301 of the Sarbanes-Oxley Act requires the audit committee to be composed entirely of independent directors (see 15 U.S.C. 78j-1).

Inspections

The Federal Reserve tailors its supervision and regulation of holding companies based on the size and complexity of the organization as well as the degree of systemic risk the company poses to the U.S. financial system and the economy, including the Deposit Insurance Fund. The Federal Reserve generally segments its portfolios by size into community banking organizations (up to $10 billion in assets), regional banking organizations ($10 billion to $100 billion), large banking organizations ($100 billion or more), and LISCC portfolio firms (i.e., the largest, most systemically important financial institutions in the U.S.). The inspection frequency and scope requirements for community banking organizations vary depending on a holding company's size and whether it has been designated "complex," with more complicated holding companies subject to more frequent and in-depth review (see SR letter 13-21). Holding companies in the larger portfolios receive more in-depth, ongoing or continuous supervision, and are subject to annual full-scope inspections as well as additional limited-scope or targeted inspections.

Regulatory reporting

With the change in the Small Bank Holding Company Policy Statement from $1 billion to $3 billion, the Federal Reserve also revised the requirements so that all holding companies of

less than $3 billion in assets (with some exceptions) may begin fling the FR Y-9SP report as of December 31, 2018, and are not required to file the FR Y-9C/LP for the September 30, 2018, as of date. Holding companies with consolidated assets greater than $3 billion must continue fling the FR Y-9C/LP report. We encourage firms to contact Safety and Soundness staff at their local Federal Reserve Bank for additional information.

Fed Notes is provided through a partnership the Bank Holding Company Association shares with the Federal Reserve Bank of Minneapolis.